

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 79 – HB 296

February 16, 2009

SUMMARY OF BILL: Authorizes an excise tax credit equal to 15 percent of any amount expended by a taxpayer for research and development during any income year.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue –

Exceeds \$7,450,000/FY08-09

Exceeds \$44,700,000/FY09-10 and subsequent fiscal years

Increase State Expenditures - \$137,000/One-Time

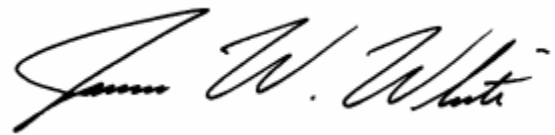
Assumptions:

- Based on data from the National Science Foundation, research and development expenditures in Tennessee are estimated to be approximately \$1.49 billion in 2010.
- According to the Department of Revenue, the fiscal impact of this bill is dependent upon its enactment date. Since the act becomes effective upon becoming law, excise tax collections would decrease in FY08-09 if passed before the end of the current fiscal year.
- Total excise tax credits authorized would be approximately \$223,500,000 (\$1.49 billion x 15% credit = \$223,500,000) in the first full calendar year after enactment (for an average of approximately \$18,625,000 per month).
- The bill passes both houses and becomes law on May 1, 2009.
- Excise tax credits can be carried forward up to 15 years.
- Excise tax credits cannot exceed a taxpayer's total excise tax liability.
- Twenty percent of tax credits are utilized in FY08-09; 80 percent remainder is carried forward to FY09-10 and subsequent fiscal years. This ratio remains constant into subsequent fiscal years.
- The decrease to state revenue for FY08-09 is estimated to exceed \$7,450,000 (\$18,625,000 x 2 months x 20% utilized = \$7,450,000).

- The decrease to state revenue for FY09-10 is estimated to exceed \$44,700,000 (\$223,500,000 x 20% utilization rate = \$44,700,000).
- Given the excise tax credits can be carried forward up to 15 years, and additional excise tax credits would continue to be authorized in subsequent years, any decrease to state revenue is expected to accelerate significantly over time.
- The one-time increase to state expenditures for computer and software modifications is estimated to be \$137,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" and last name "White" clearly legible.

James W. White, Executive Director

/rnc